

To the Honorable Judge Glenn,

My name is Kevin Vong and I have been a customer of Celsius Network since 2020. I initially joined because I was under the impression that my crypto savings would be safe-guarded earning a weekly yield that was exposed to very low risk. Both Celsius Network and Alex Mashinsky marketed Celsius as being better than a bank because they were able to pay out yields significantly higher than a traditional bank account. This was very attractive for retail customers since many banks were not offering interest above 1% during 2020. However, had I known the risks and the fraud that was involved, I would not have risked my hard-earned money. I have now lost a quarter of my net worth and feel deeply ashamed and frustrated.

In this letter, I aim to point out the incompetencies, fraud, and Ponzi nature of Celsius Network. I hope that in doing so, you could help put the interest of unsecured creditors first and do what is right for those that have risked their life savings with Celsius.

Celsius Network was advertised as being better than a Bank



Source: <https://celsius.network/why-trust-celsius>

Celsius frequently compares itself to banks, claiming that they're able to offer fair interest via their earn program, and low rates for over-collateralized loans through their mobile and web app. In multiple interviews, Alex points out that banks "steal" from their customers with fees and lend out customer deposits to other customers at a highly profitable rate. He claims that by profiting less from lending out assets, Celsius can give back to the community with yields as high as 17%. This makes Celsius seem very attractive to retail customers when comparing it to a bank. However, the two are not the same as customer funds are not FDIC insured and Celsius does not have a banking license. Nonetheless, how Alex and Celsius Network markets itself as an alternative to a bank can be misleading for retail investors. Below is the section on lending protection from Celsius' Whitepaper. It states that "Members who lend coins on the Celsius Network will be protected by the Celsius lending protection pool (funded by our fees). Any defaulted lending or coins lost will be insured through our protection pool and coin values will be restored immediately." After reading this, retail

investors may believe that their funds are safe even after default in lending. We have now learned that Celsius Network does not have a protection pool for its customers and was negligent in making sound financial decisions and managing customer assets.

Lending Protection

Members who lend coins on the Celsius Network will be protected by the Celsius lending protection pool (funded by our fees). Any defaulted lending or coins lost will be insured through our protection pool and coin values will be restored immediately. The Celsius wallet will show our cash deposits every day which will also be audited by an outside accounting firm several times a year.

Source: <https://celsius.network/static/celsius-whitepaper.pdf> Page 9

Celsius Network promoted “Delta-Neutral” Strategies for Yield Generation while operating like a high-risk hedge fund



Source: <https://www.youtube.com/watch?v=m1Zqx618Tvg&t=148s>

In an interview with [CNBC](#), Alex Mashinsky claims that Celsius only participates in a delta-neutral strategy. According to Alex, this means Celsius does not bet on the markets going up or down, and that Celsius' primary yield generation strategy was to lend crypto assets to institutions for interest. However, Celsius has disclosed in their filing of Chapter 11

that not only have they lent out customers' funds to institutions, but have engaged in swing trading with customer funds as well as deploying capital in high-risk Defi yield-farming protocols. Not only is Celsius negligent in informing customers of the risks involved in such strategies, but Celsius also lacks the licenses, compliance, and disclosures to operate like a hedge fund. Celsius was fully aware of its high-risk internal investments while conveying to the public that only "delta-neutral" strategies were used. It is this display of fraud that is deeply problematic for the company. It is highly likely that should a customer learn about Celsius' high-risk investments they would have chosen not to allocate the same amount of capital to Celsius as the risk profiles of engaging in trading and Defi are exorbitantly high.

Celsius Network misled customers by claiming it had enough "Reserves" to meet obligations

All instances of HODL Mode are a response to protect user accounts, and to comply with regulatory, compliance, and legal requirements. In most cases, HODL Mode can be deactivated quickly by contacting Celsius Customer Care.

Celsius continues to process withdrawals without delay. We have not had any issues meeting withdrawal requests. Celsius honors all withdrawals as quickly as possible and works hard to support customers if and when there are delays.

Celsius has the reserves (and more than enough ETH) to meet obligations, as dictated by our comprehensive liquidity risk management framework.

Despite difficult cycles in the market like we face today, we at Celsius remain deeply optimistic about the future. Celsius was not founded to make small improvements to TradFi. From day one, we sought to radically disrupt a broken system. We have worked non-stop to transform, revolutionize and build powerful tools to help everyday people all around the world attain their financial dreams. It hasn't always been easy, but then again, what revolution was?

Source:

<https://blog.celsius.network/damn-the-torpedoes-full-speed-ahead-4123847832af>

In a blog post from Celsius on June 7th, just weeks before Celsius filed for bankruptcy Celsius claims that they have enough reserves to meet obligations. This is simply not true as the company has disclosed it is \$1.2Bn in deficit when filing for chapter 11. This again is another example of providing false statements and misleading customers.

Celsius Network is not acting in the best interest of their customers

Exhibit L

The Debtors' Payroll for the 30-Day Period Following the Filing of the Debtors' Chapter 11 Petitions

Pursuant to Local Rules 1007-2(b)(1)–(2)(A) and (C), the following provides, for the 30-day period following the Petition Date, the estimated amount of weekly payroll to the Debtors' employees (exclusive of officers, directors, and stockholders), the estimated amount paid and proposed to be paid to officers, stockholders, and directors, and the amount paid or proposed to be paid to financial and business consultants retained the Debtors.

Payments	Payment Amount
Payments to employees (not including officers, directors, and stockholders)	\$ 3,450,169
Payments to officers, directors, and stockholders	\$ 730,833
Payments to financial and business consultants	\$0

After filing for Chapter 11, Celsius has proposed figures for their weekly payroll. Not including director and officer payments which are an additional \$3.4m, Celsius proposes to pay each employee an average of \$30,000 per month. This demonstrates that Celsius is not acting in the best interest of its customers. After losing millions of dollars of customer funds, Celsius is looking to compensate their employees while leaving their customers financially ruined. In the past, Alex has claimed that Celsius has over \$2Bn in liquidity which is not factually true, a sum that dwarfed other crypto-lender competitors in the industry. He has also stated that Celsius has raised \$750m in series B funding. However, it was disclosed during their bankruptcy filing that the sum was \$600m as opposed to \$750m and that the money raised was used to acquire a bitcoin mining company named GK8 in Israel. This goes to show how aggressive Celsius' approach was in expanding their business while neglecting the safety of customer funds.

Alex Mashinsky is unfit to run Celsius Network

Alex Mashinsky portrays himself as a successful businessman having run multiple tech startups and creating VOIP. It is understandable that many customers, including myself, trusted his ability in running the business. However, what is crucially important is that Celsius is a financial services company and should not be run like a tech startup. The mentality of "move fast and break things" in the tech world should not apply in this context as the consequence is millions of dollars of loss. Celsius at one point was responsible for managing

\$20Bn of assets during the height of the crypto Bull Market. I believe that for managing large sums of customer funds, the leadership of Celsius should demonstrate great experience and knowledge in running financial services companies. Furthermore, I am appalled by the integrity and ability of Alex Mashinsky in being transparent in running Celsius. There are several accounts where Alex has misled customers during the company's weekly AMAs claiming that "there's nothing to worry about" while running an unsustainable high-stakes company. Since mid-2021 Celsius was not profitable leading up to the bankruptcy, existing investor rewards were paid with the funds collected from the deposits of new investors exhibiting a Ponzi-like nature to how Celsius operated. Alex was fully aware of this but continued to operate hoping to fill the deficit with money from new deposits. It is my understanding that this behavior is outright fraud and should be held accountable. And It does not surprise me that Celsius is now being investigated by several states in the US.

Conclusion

Thank you for your time in reading this. There are 1.7 million customers that have accounts on Celsius worldwide. The harm that Celsius has caused is staggering. I hope you can find the best path for all those involved in the collapse of Celsius.

Sincerely,

Kevin Vong